18140-3A

NPTA MANAGEMENT NEWS

NOVEMBER 1984

MN

Is The Compensation Question Tearing Your Company Apart?

Mr. John P. Kennedy
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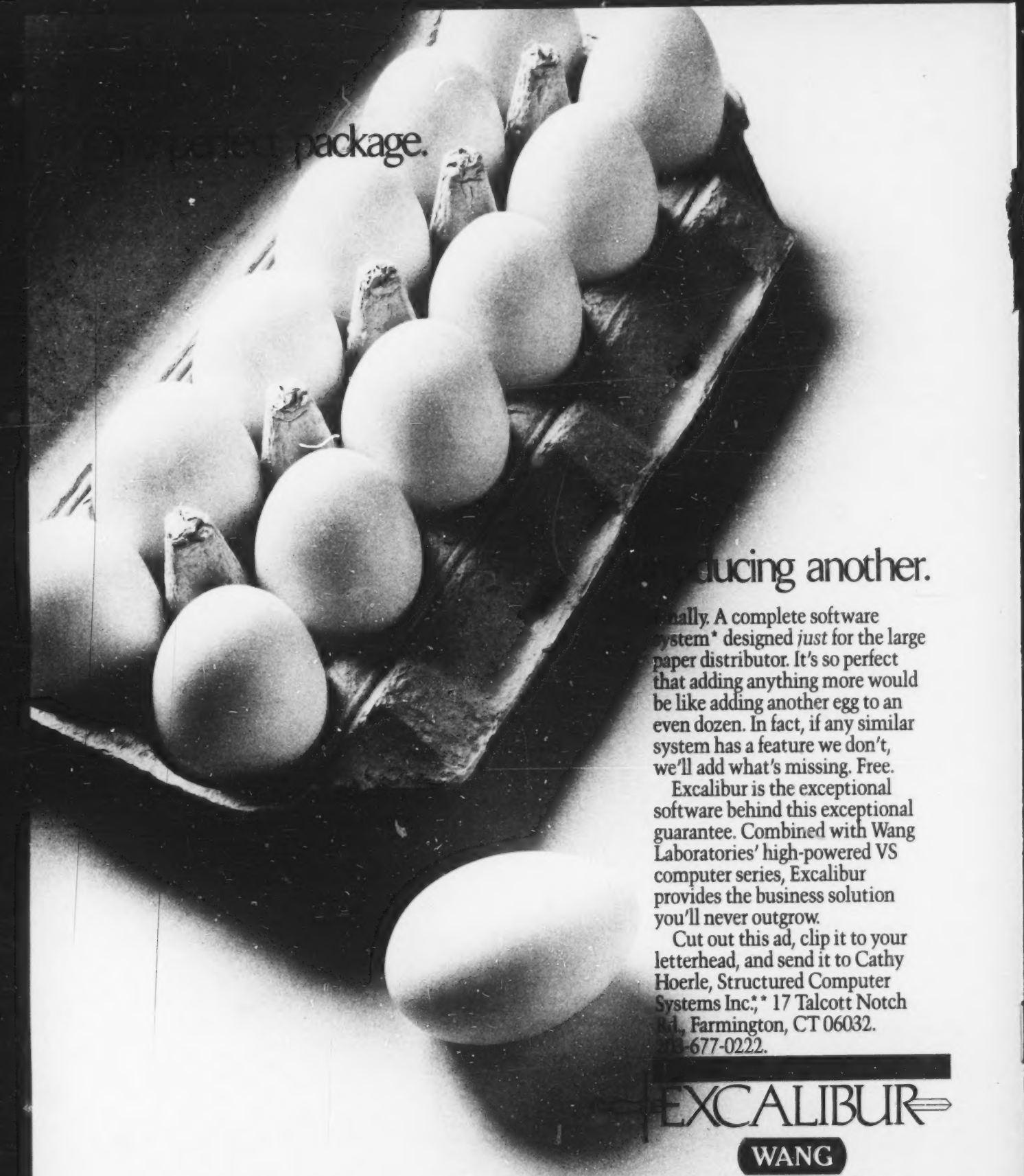

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MN
NPTA MANAGEMENT NEWS

VOL. XXV/NO. 11

Published by
National Paper Trade Association, inc.

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NPTA Management News (ISSN 0379-2214) is published monthly by the National Paper Trade Association, inc., at a subscription rate of $50 per year. Second-class postage pending at Great Neck, NY, and additional mailing office. POSTMASTER: Send address changes to *NPTA Management News*, 111 Great Neck Road, Great Neck, NY 11021, 516-829-3070.

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Part of the Grayco Products team at their offices in Westbury, NY.

Cover Photo
Ben Asen

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NPTA ELECTS OFFICERS, NEW BOARD MEMBERS

The National Paper Trade Association elected a slate of officers and new members of the board of directors at its annual meeting held in Chicago at the end of September. Elected chairman of the board was Frank J. Viegas, president and CEO of the Dowd Company of Woburn, MA. Lionel W. Eltis, chairman 1983-84, will remain on the board as past chairman.

Elected first vice chairman was Richard W. Abrams, CEO of West Coast Paper, Seattle, WA. He also serves as chairman of the Association's Printing Paper Division Committee. Francis J. Houlihan was elected second vice chairman and chairman of the Industrial Paper Division Committee. He is president of the Fleetwood Paper Company, Franklin Park, IL.

Frederick J. Stabbert, president of the Zellerbach Paper Company Division of Crown Zellerbach Corporation, was elected treasurer of NPTA. Prior to his election as an officer, he was a board member. His vacant seat on the board was filled by the selection of the chairman. Kenneth A. Leininger, president, the Ohio & Michigan Paper Company, was selected to fill that slot. Leininger is a former board and committee member.

The membership elected four new members of the board of directors to serve three-year terms. William M. Close, president of Kirk Paper, was elected to the board. He served NPTA once before as a board member in 1979-80. Gene Shelton, president of Sunclipse, Inc. (formerly Kent H. Landsberg & Company) was also elected, as was James J. Swearingen, executive vice president of the Unisource Corporation.

The first international member of the NPTA board of directors was elected at the annual membership meeting. Jeff Chipman, president of Inter-City Papers, Ltd. of LaSalle, Quebec, Canada has joined the board for a three-year term. Prior to his election, he served for two years on the Association Printing Paper Division Committee.

Outgoing chairman of NPTA Lionel W. Eltis thanked those members of the board who had completed their terms of office: Prentiss H. Cole, president, Fargo Paper Company, Fargo, ND; John C. Selig, executive vice president, W.H. Smith Paper Corporation, Albany, NY; Joseph M. Tell, president, Carpenter Paper Company of Iowa, Des Moines, IA; Thomas V. Zeuthen, vice president and general manager, Nationwide Papers, Stamford, CT.

USDAN RECEIVES BROTHERHOOD AWARD

The National Conference of Christians and Jews has given Martin J. Usdan its "Brotherhood Award of the Paper Industry and Allied Groups." Mr. Usdan is president of Heller & Usdan, Inc. of Moonachie, NJ.

"Martin J. Usdan's participation in industry projects is public knowledge," stated Mr. Olzman. "His services to those causes that espouse the dignity of the individual and give expression to th inalienable right of each one to seek his own fulfillment are manifest from his intimate association with, and enlightened leadership of, many organizations. In addition to being a successful businessman, he is a responsible citizen and committed humanitarian."

G-P TO SELL COMMODITY CHEMICALS

Georgia-Pacific Corp. management announced that is has reached a decision to sell certain of its commodity chemical operations to a group of executives currently managing that business. Negotiations are underway and a definitive agreement is expected shortly.

The company also announced that it is continuing to evaluate bids with respect to its previously announced decision to sell Exchange Oil & Gas, the company's oil and gas subsidiary.

"These sales are in line with our strategy of focusing on our core forest products businesses," T. Marshall Hahn, Jr., chairman and chief executive officer of Georgia-Pacific, said. "They will raise a substantial amount of cash, further strengthening Georgia-Pacific's financial position and our ability to take advantage of investment opportunities offering superior results for our shareholders."

APPLETON PURCHASES MILL FROM GLATFELTER

A purchase agreement was signed for Appleton Paper's acquisition of the P.H. Glatfelter Paper Mill in West Carrollton, OH on September 6, 1984 and Appleton assumed operation on September 11. The purchase price was set at $83 million to be paid in five years.

Appleton will use their new mill to supply base paper to the company's NCR converting operations. Appleton is the world's leading producer of carbonless paper. Thomas W. Busch, chairman and chief executive officer of Appleton said, "We believe that this paper mill will complement our present manufacturing operations and will provide us with additional base paper to meet our growing market needs."

L-P MILL WORKERS VOTE TO OUST UNION

"Decertification" votes have now been held by the National Labor Relations Board (N.L.R.B.) at all but two of the 19 Louisiana-Pacific plants and mills involved in a strike against the company which began in June of 1983. The L-P workers have voted overwhelmingly to "decertify" the unions, although challenged voters and union appeals to the N.L.R.B. have held up a final determination of those elections. A vote in favor of decertification means that the union no longer represents the workers at that location.

The latest election was held September 14 at Louisiana-Pacific's sawmill and plywood plant in Standard, CA. Workers at Standard voted 95 to 18 in favor of decertification.

SCOTT ACQUIRES SANI-FRESH

Scott Paper Company has acquired the assets of Sani-Fresh International, Inc., a San Antonio, Texas based manufacturer of personal cleansing products and systems for commercial and industrial markets. Terms of the transaction were not disclosed.

Sani-Fresh is a leading supplier of liquid washroom soaps and dispenser systems for manufacturing facilities, office buildings, restaurants and other commercial or away-from-home markets. The firm also supplies this market with a range of specialty cleaning systems and products.

Scott indicated that Sani-Fresh is a growing, highly innovative company, that fits well with Scott's strategic objective of seeking growth opportunities in areas that build on its existing strengths and unique capabilities. Sani-Fresh is a natural extension of the towels, tissues, napkins and wipers Scott currently sells to the away-from-home market.

CANADIAN PAPER TRADE ELECTS OFFICERS

The Canadian Paper Trade Association, an organization of fine paper merchants, elected a new slate of officers at its 66th annual meeting held in Ottawa: president - William S. Brown, Barbecon; 1st vice president - David Leigh, Domtar; 2nd vice president - Yves Montmarquette, Inter-City Papers; treasurer - Ray Franks, Graphic Papers.

INDEPENDENT BUSINESS REPORT AVAILABLE ON TAXES

"Your Business and the 1984 Tax Act" is available from the Independent Business Institute. It provides a concise, business-language description of all changes in business taxation in the complex new tax law. Among changes addressed are: New investment credit and depreciation on medium-size and larger cars, business/investment real estate depreciation now 18 years, no deduction for accrued interest, travel and entertainment records tightened, changes in stock-purchase acquisition treated as asset purchase, and more.

The report is free, but $1.00 must be enclosed to cover shipping and handling. Write to the Independent Business Institute, P.O. Box 159, Akron, OH 44309. Ask for report #600.

PEOPLE IN THE NEWS

Fred J. Robbins has rejoined Mead Merchants as division vice president.

Kent L. Carson was named president of Ris Paper/New York.

F. Thomas Jenkins was appointed vice president of Human Resources at the Henley Paper Company, Greensboro, NC.

Arthur W. Towne, former president of Blake, Moffitt & Towne and a grandson of one of the founders of the company, passed away at the age of 90.

Thomas "Tony" Genovese, co-founder of Gummed Papers of America in 1940, passed away.

James D. Jackson has been named president and chief operating officer of Cardinal Paper, Oklahoma City, OK.

Charles S. White has been named executive vice president of the Fletcher Paper Company.

Robert R. Theroux has been promoted to controller of the Nyman Manufacturing Company of East Providence, RI.

Joe R. Neil was appointed division vice president and business manager of consumer products for Crown Zellerbach.

D.R. Snoad was named senior vice president-paper sales of Bowater, Inc.

Fred C. Whitney was appointed manager of the Printing Products Division of Mactac. **David L. Eastin** will head the Roll Products Division and **David Rennels** was named manager of the Industrial Products Division.

William R. Laidig has been elected chairman and chief executive officer of the Great Northern Nekoosa Corporation. **Robert Hellendale** has retired.

Elias M. Karter was elected vice president, manufacturing and technology and **Kurt A. Renick** was named director of financial analysis and control of Mead.

GEORGIA-PACIFIC WINS ANDY AWARD

Susan Whalen, director of communications for Georgia-Pacific's Printing Papers Division, accepted an ANDY Award on behalf of the Hopper Papers Group at the 1984 ANDY Awards Banquet and Presentation sponsored by The Advertising Club of New York. Hopper was cited for its new logo. ANDY's are awarded for art work and copywriting of the highest caliber. Hopper Papers, manufactured at Reading, PA and Taylorville, IL, are a premium line of cover and text papers.

PRINTING PAPER

STORING THE PRINTED WORD, BUT NOT ON PAPER

It is still not clear what impact computers will have on the demand for paper. Some say all that data storage in electronic form will cut down on paper being typed, copied and filed. Others see that computer output in printed form growing exponentially.

Of course, it makes good sense to look at a specific example that may be telling. No one stores more paper than the Library of Congress in Washington, DC.

It is the world's largest repository of the printed word holding about 80 million items and acquiring 10 new items every working minute of every day. That's 532 miles of shelves and they are bursting at the seams.

According to an article in *American Way* magazine, the library started a pilot program using video disks. These optical-disks actually hold a "picture" of a page rather than the way a computer's magnetic disk holds data. They built a jukebox system that holds 100, 12 inch optical disks with random access control.

Stores one million pages.

Each disk can hold 10,000-12,000 pages of printed text, that means that "roughly one million pages can be stored in 15 square feet of real estate." That is the equivalent to storing about 4,000 books each containing 300 pages. And each page in each book can be located by the computer.

So, will these systems replace the printed word? Probably not. Words on paper are required for this machine to do its job. If this technology takes hold, it may replace some filing cabinets, but at this point, the crystal ball is still cloudy.

PRINTERS TARGET GROWING SALES AREAS

Merchants are always interested in who the printers' customers are, how they are being serviced and what consumer areas are growing. Printing Industries of America (PIA) has a resource now made available through NPTA: *Best & Worst Markets for Printers in the 1980s*.

It is *not* a geographic perspective. This resource reviews 85 different industries that purchase printing. *Best & Worst* analyzes the printing-purchase-potential of each industry and helps merchants understand how growth areas may be affecting the sale of paper.

Best & Worst was first published in looseleaf form in 1979 and has been updated twice each year since. Updates are available each spring and fall. This helps users keep current especially when each industry reviewed has a five year percentage growth projection.

The publication price of *Best & Worst* is $135, but is available to NPTA members for $100 plus $3 shipping and includes the next year's updates. Direct orders to the NPTA Communications Department.

HIGH VOLUME COPYING

High speed copiers seem to be everywhere. Quick printshops and inplant operations have most. The National Association of Quick Printers (NAQP) compiles the results of survey of copy volume for high speed copier users.

The NAQP report showed that Xerox 9400 and 9500 machines led with 273,000 copies per month. The next highest average monthly volume was registered by the Kodak 2500 with 251,000 copies per month, followed by the Xerox 9210 at 234,000 copies.

Listed next was the Xerox 9200 at 208,000 copies per month and the Kodak 150 at 156,000. The survey responses also showed that an overall average of 38% of the quick printers' total volume was done on high speed copiers.

LABELS ARE BIG BUSINESS

At least that is the contention of Avery; and they should know. They stated that $24 million a year is spent on short-run, self-adhesive, die-cut labels.

There is something to be learned from their advice to quick printers about how to turn spare press time into cash. Merchants can show nicely printed samples to all printers to try to beef sales. Anything that the printer can use with his customers will help get the magic of label stock across.

COUNTERFEIT PRINTING FROM OVERSEAS MAY BE CONTROLLED BY NEW LEGISLATION

For some time, many have been concerned by counterfeit printing coming ashore in the United States. Congress has agreed to a major trade bill that may have some teeth in it to control the problem.

It is known as the "Generalized System of Preferences" (GSP). It is a program seen by the Reagan Administration as vitally important to the overall trade policy of the United States. Duty free entry of goods from developing nations is included in the extention of this bill.

Central to the GSP is a provision that would allow sanctions against those countries covered by the GSP which are actively involved in counterfeiting or pirating US manufactured goods. Several Far Eastern countries with GSP privileges, reports Printing Industries of America, are notorious for their pirating of products ranging from books to computers.

The sanctions provided for in the new trade law would not prevent such actions but would give the United States retaliatory ability.

INDUSTRIAL PAPER

SHOW ROOM SELLING: HOW NOT TO FAIL

According to a recent article in *Maintenance Supplies* magazine, there are a set of golden rules to follow to assure failure in show room selling:

1. *Ignore the three cardinal rules of real estate selection: location, location, location.* Operating in an unreachable area is obviously not a good move. Selecting a site near both industrial and commercial markets is essential for the attraction of all prospects large, small and new to your product mix.

2. *Don't advertise.* This one again is common sense. If they don't know you or your product they can't buy from you. Be sure to plan in your budget for promotion of your new endeavor. Take advantage of your trucks that are moving billboards, announcements to current customers and local newspapers, flyers or stuffers in billing and correspondence and anything else you can think of. The trick is to become known.

3. *Disguise the building to look like a warehouse.* This makes no sense at all. As a show room, it must be attractive and comfortable. It helps also for those driving by to be able to see what products you are offering; and an atmosphere that makes them feel welcome.

4. *Keep the public out.* This is just throwing money away. While you want to attract major accounts every little bit helps. Public relations also plays a part. Word of mouth may just reach that major buyer who hasn't heard of you before.

5. *Staff the show room with new trainees.* Allowing an inexperienced sales person to sell to a major account is suicide. Professionalism is the key to success both in the showroom and the warehouse. Trainees need to be trained before they can fly.

6. *Appearance is not important.* The design of the showroom must be flexible to accommodate new products. Color, light and creative displays are the key to having customers return and enjoy the experience.

7. *Keep sales staff out.* Never waste time. Creativity, ingenuity and assistance of staff in planning and running the showroom is necessary. Using the showroom for mass demonstrations to clients makes it a very efficient and profitabie sales tool.

8. *Showroom sales do not warrant management time.* Murphy's Law states that if you ignore a situation, the situation will come back to remind you of it. Success will only occur when good planning occurs. Sales are made through serious management of all factors.

In conclusion, the article states that show business is a different business than you are used to and needs to be planned for, taken advantage of and worked. It can be a great support tool for sales staff and super for public relations.

TRUCK TONNAGE RISING

According to the regular common carrier conference of the American Trucking Association, the first quarter of 1984 saw truckers carrying more tonnage: 9.1% over that same period for 1983 to 25.8 million tons. The group report also indicated that profits had increased for after-tax income by 42% to $24.8 million. Tonnage is still only 56% of the first quarter of 1979 but net income is the best for any quarter since 1980's first quarter.

FLEXIBLE PACKAGING INDUSTRY TO USE LESS PAPER

Converted flexible packaging shipments will top $5.5 billion by 1987 and nearly $9 billion by the mid 90's in value reports Predicasts, Inc., a Cleveland based research firm. This would represent an increase of more than 100% from 1982 figures. The group also claims that films will capture a higher share of the market up to 63% by the mid 90's from 58.5% in 1982.

Linear low density polyethylene is expected to achieve the most significant increase, with aluminum close behind which will rise to 165 million pounds by 1987. Papers such as glassine, greaseproof, filed and waxed will be reduced, losing position to plastics films. Predicast, Inc. states that by 1995 the demand for paper as a flexible packaging material will fall to 1.5 billion pounds from 1.6 in 1982.

PLASTIC MAIL SACKS MAKE THE GRADE

Last year, *MN* reported that the post office was testing plastic mail sacks that might be used to replace the old gray canvas models. It is now clear that the plastic sacks have passed the test with flying colors.

The new brown plastic sacks weigh substantially less than canvas, take up one-third less space and are easier to handle. Score one for plastics.

CLASSY RESTAURANTS NOW PACKAGE MEALS TO GO

Have you been avoiding the fine restaurants? Maybe they deserve some attention. According to an article in *USA Today* and reported in the Single Service Institute newsletter, fancy restaurants are preparing carryout dishes. And, the better the restaurant, the nicer the carryout gear has to be.

Consumers now want higher quality food but still want their convenience. More and more food service establishments are recognizing that and are servicing the carryout trade. According to the article "Pizza parlors and Chinese restaurants aren't the only eateries that box up their bounty for takeout customers. A growing number of starched-tablecloth and fine-china establishments are now filling plastic takeout containers with everything from simple baked chicken to Italian layered tortes."

IS THE COMPENSATION QUESTION

Compensation. Even the sound of the word strikes fear in some while making others wish they didn't know the meaning of the term. The only real way to know what it means to paper merchants these days is to look at what they are paying their people, how they pay and the different philosophies behind those payment systems.

The paper distribution industry is in the midst of a compensation crisis, some say. And as the argument goes, the old methods of remuneration are not working in the new paper mechant model of the mid-eighties. Compensation concerns are straining companies to their limits. Why? Because paying people for the work they do is more than signing the check. Employee compensation is complex and confusing. Paper merchant managers often feel that the issue has put them in a box. They want out.

The reasons for this are many: the uniqueness of the company, the market, the employees, the company philosophy and position, changing industry patterns. These distinct elements can be managed together by finding the answers to a few basic questions: *How* much are people paid? *What* method is used to pay them? and, *Why* are they paid the way they are?

Paper distribution is becoming more complex. There is a growing realization that the success of the company depends on many different types of employees: sales, sales service, purchasing, transportation specialists, etc. The compensation of these poeple must be better managed.

It is easy to complain that the mounting payroll is causing problems for the company. But the total cost of the company's payroll should be seen as *excessive* only if the level of employee productivity does not warrant the expense. So questions such as "Am I getting what I paid for?" and, "How do I know" are the questions that cry for answers.

The compensation equation would not be complete, then, without some reliable means of measuring productivity. The greater the productivity, the greater the potential reward to both the employee and the house. Measuring employee productivity allows the executive to systematically evaluate, remunerate and support the growth of his personnel in their jobs. Everybody wins.

Is your company torn by the compensation issue?

Personnel Productivity Index

To help paper merchants with the task of evaluating employee performance, a number of tools have been developed. Dr. Ron Roster's Personnel Productivity Index (PPI) is one and George C. Webster's Personal Productivity Ratio is another. This first device is the one used by the National Paper Trade Association in its annual Performance Analysis Report (PAR). This is defined as gross profit per employee divided by the average compensation per employee. PPIs can be developed for every type of employee from managers to sales reps, office workers and warehouse employees.

Of course there are other on-the-job measurements that executives can use, but the PPI is a way to compare the gross profits generated by a company's employees with the total that company spends on employee compensation. The resulting industry averages provide executives with a useful yardstick to follow and comparison with company statistics.

Clearly, for a compensation program to be effective, measurement is required. All paper merchants measure their employees. Whether this is done formally (within a fixed system) or informally, the thought of paying someone without some basis for determining his or her level of productivity (value to the company) is unheard of.

Studying Total Compensation

To gain a greater understanding of the magnitude of the issue, total employee compensation must be reviewed. For printing paper merchant firms, total compensation eats up 56% of each gross profit dollar (see table on page 12). It is 64% for industrial paper merchants and 59% for dual houses. Total compensation is defined as salaries, commissions, and bonuses

TEARING YOUR COMPANY APART?

plus profit sharing and pension fund contributions, fringe benefits—such as group life, health and accident insurance—and payroll taxes.

Payroll expense equals salaries, commissions and bonuses (without fringe benefits). Relative to gross profit, it was 48% for printing paper merchant firms, 56% for industrial houses and 50% for duals. Undoubtedly, these expenses—about half of gross profits—require the paper distribution executive's attention.

Looking specifically at operating the company, total compensation takes on an even larger role. About 70 cents out of each dollar the merchant spends on operations goes to paying his people. Although payroll's share of total operating expenses has been trending downward over the past three years for both printing and industrial houses, the opposite has been true for dual merchants. Payroll costs for this group have steadily increased relative to total operating expense.

Employee Compensation

Most discussions of employee compensation begin and end with the discussion of salespeople. This is understandable because it is the most volatile area with which merchants must deal. Previous *MN* articles have been dedicated to this subject (see July, October and the "Management Information" page in this issue). So, it is now fitting to look at the way this industry compensates other employees.

Significant differences do exist in salaries paid to employees by type of paper merchant: printing, industrial, dual. This is most evident at the upper management levels of the companies. There is a noteable spread found in mean salaries paid to the "highest paid" employee (see table on page 13). This ranges from $126,800 for dual merchant houses to $220,300 for printing paper merchants.

When salespeople are excluded from the picture, the salaries range from $106,900 to $144,200. Branch manager salaries are typically $49,600-$64,900 per year.

Office and warehouse personnel statistics show a much smaller spread by type of merchant house. The average office worker in paper merchant houses is paid a salary of $13,800. Warehouse personnel average $19,100, while delivery people earn $20,800 on average.

Fringe benefits, as defined for NPTA's PAR survey, include: contributions to profit sharing and pension funds for owner-managers and non-owner employees, group life, health and accident insurance, and payroll taxes. Total fringe benefit costs as a percent of total compensation have risen most rapidly for printing paper merchants in recent years, from 13.4% to 15.7% by 1983. These costs have risen very slightly or not at all for industrial and dual merchants, to 13.1% and 16.1% respectively by 1983.

In dollars, fringe benefits per employee averaged $5,570 for printing, $4,070 for industrial and $5,040 for dual merchants. Fringe benefit costs have risen 30.4% between 1981 and 1983 for printing paper houses, 17.8% in dual houses and 12.7% for industrial paper merchants.

The Compensation System

The "what method" question posed earlier is one that speaks to the compensation system used to pay people. Systems vary widely across the country, but it is fair to say that there are three opeating principles that govern all methods used: local wage rates for the particular job in question; union negotiations and contracts; and, incentives.

There is not much the merchant can do about the first two items on that list. He has little control. But the third element *can* be controlled and used creatively. ("Incentive" is defined as the reason one employee is being paid more than another for performing the same job.)

Why *would* a merchant pay one employee more than another for doing the same job? Simple—to gain greater performance.

George Webster, in his book *Controlling Payroll Costs In Distribution* ($34 from NPTA), states that there are many good reasons for developing an incentive plan for company employees:

1. Employers will attract better people (who will be willing to put forth extra effort).
2. Employers will hold better people (they want the extra pay).
3. Workers will improve their productivity (they want to produce more).
4. Employees themselves will help eliminate low producers in their groups because it may affect their bonuses.
5. Workers will help train new workers (to help them become more productive sooner).
6. Employers will be able to keep to the minimum number of employees (due to their increased productivity).
7. Total payroll dollars will actually be kept down.
8. When bonuses are tied to productivity, productivity improves.
9. More efficient and equitable salary administration.

10. Incentives help less strong managers control their payrolls more effectively.

Developing and using incentive programs may not be easy. Beyond what forms the incentives will take is the recurring question of how one determines the performance level that will trigger the bonus or provide the employee with the desired incentive.

Claude Kordus, partner, Hewitt Associates, reporting at the 1983 Annual Convention of NPTA discussed a unique approach to compensating managers. He said that the best managers are entrepreneurial managers, and if a manager can receive a "piece of the action," he or she will be more productive.

Kordus suggests the use of "junior stock" equivalent to 1/10th of a regular share of stock. This can be given by small, privately held companies. Shares may be awarded as bonuses or incentives and converted later to full shares or purchased back by the company providing the manager with increased income.

The reason why this idea is so attractive is that there is an enormous tax advantage involved—capital gains reduce the tax rate to 50%. And, the manager feels he or she has a real stake in the company.

A more popular way of providing incentives for managers is through a bonus system based on the manager's return on controllable assets (ROCA). The largest components of this are inventory and receivables.

Another system used for incentive compensation for branch managers is the application of what is known as the "Dupont Profitability Model." This model contains more elements than contained in the return on controllable assets methods. (A copy of the Dupont model is available at no charge from the NPTA Communications Department.) The important idea is to tailor any plan to the individual needs and style of the company. This will help insure success.

The twists and turns of the compensation issue *can* rip a company apart. Some parts of the question can be controlled effectively, others not very well at all. Measurement is the key to an effective, well managed, compensation system. Working to improve the way people are paid for the work they do is necessary. The risks are great... but so are the rewards.

Note: Figures in all tables are "weighted means" from the results of the annual NPTA/MFI PAR survey. A weighted mean is the average of the results of a group of firms, weighted to take into account the effects of large versus small firms. Consequencly, it is a more meaningful measure than a median or arithmetic mean.

Compensation Relative To Gross Profits And Operating Expenses

(Weighted Means)

		Printing	Industrial	Dual
Total Compensation as % G.P. (%)				
	1983	57.4	63.8	60.4
	1982	57.3	65.6	60.5
	1981	53.9	63.5	56.6
Total payroll as % G.P. (%)				
	1983	48.6	55.5	50.6
	1982	49.7	57.3	50.9
	1981	46.8	55.3	47.3
Total Compensation as % total operating expenses (%)				
	1983	66.9	70.0	69.2
	1982	66.2	70.3	68.3
	1981	67.3	70.9	67.9
Total payroll as % total operating expenses (%)				
	1983	57.1	60.8	58.1
	1982	57.5	61.4	57.6
	1981	58.3	61.7	56.9

Source: 1984 NPTA PAR Survey

Consultants in Productivity Improvement
(Specializing In Wholesale-Distribution)

Arthur Andersen & Company
33 West Monroe Street
Chicago, IL 60603
312-580-0033

The Austin Company
820 Davis Street
Evanston, IL 60201
312-869-3130

Ballinger-Meserole Company
841 Chestnut Street
Philadelphia, PA 19107
215-629-0920

Booz, Allen & Hamilton, Inc.
8800 E. Pleasant Valley Road
Cleveland, OH 44131
216-524-5900

Theodore Cohn Consultant, Inc.
57 Winding Way
West Orange, NJ 07052
201-731-9707

Gagnon & Associates
1006 City View Drive
Minnetonka, MN 55343
612-544-4611

Garr Associates, Inc.
1240-50 Powers Ferry Road
Marietta, GA 30067
404-955-6142

Healy & Associates
James Farm
Durham, NH 03824
603-659-2736

Hewitt Associates
4590 MacArthur Blvd.
Newport Beach, CA 92660
714-955-1800

A.T. Kearney, Inc.
222 S. Riverside Plaza
Chicago, IL 60606
312-648-0111

The Merrifield Consulting Group
52 Sherwood Place
Greenwich, CT 06830
203-661-1760

Charles H. Olson
941 Berry Avenue
Los Altos, CA 94022
415-964-4406

Profiles International
P.O. Box 24048
Fort Worth, TX 76118
817-496-6881

Strata GM Corporation
3375 Scott Blvd. Suite 332
Santa Clara, CA 95051
408-496-0364

K.W. Tunnell Company, Inc.
Valley Forge Plaza
King of Prussia, PA 19406
215-337-0820

George C. Webster
207 Hancock Street
Beaufort, SC 29902
803-524-5401

Average Compensation By Job Function

(Weighted Means)

Avge. Pay per	Printing	Industrial	Dual
Avge. pay per office employee ($000)	$ 13.9	$ 14.8	$ 12.6
Avge. pay per warehouse employee ($000)	19.3	18.1	19.8
Avge. pay per delivery employee ($000)	22.7	19.4	20.3
Avge. pay per branch manager ($000)	58.4	49.6	64.9
Compensation of highest paid (except salesmen $000)	120.1	144.2	106.9
Compensation of highest paid (all persons $000)	220.3	154.5	126.8

Source: 1984 NPTA PAR Survey

Employee Fringe Benefits and Productivity Indexes

(Weighted Means)

Fringe Benefits		Printing	Industrial	Dual
Fringe benefits per employee ($)				
	1983	$5,570	$4,070	$5,040
	1982	4,410	3,640	4,680
	1981	4,270	3,610	4,280
Total fringe benefits as % total compensation (%)				
	1983	15.7	13.1	16.1
	1982	13.3	12.6	15.8
	1981	13.4	12.9	16.6
Productivity				
(1) Personnel Prod. Index (all employees, X)				
	1983	1.76	1.59	1.68
	1982	1.77	1.54	1.68
	1981	1.88	1.60	1.79
Personnel Prod. Index (non-owner employee, X)				
	1983	1.79	1.76	1.72
	1982	1.84	1.67	1.73
	1981	1.92	1.76	1.77

(1) The personnel productivity index is defined as: gross profit per employee divided by average compensation per employee. This is a measure that compares the gross profit generated by employees to the total compensation they earn during the period. Other things being equal, a higher PPI value is preferred.

Source: 1984 NPTA PAR Survey

RECRUITING

THE GRASS IS ALWAYS GREENER!

Alice has been with your firm for six years as an inside fine paper order desk person, she's loyal, dependable, hard working, and has an outgoing personality. She is professional, likeable, and can juggle 18 balls in the air at one time. Who knows, she might even play golf.

In the paper merchant industry, revenue growth, and/or losses are the direct result of changes in market pulse rate, talent, lines, and service. If you are strong in the last three, they will usually take care of the first one. Of the four, talent is the only one I profess to have any knowledge of.

Hidden Assets

If you're looking to expand your existing sales force, I assume you will examine your inside personnel first. Hopefully, your internal search will include all your employees such as order desk, customer service, and secretaries whose abilities are often under utilized. A receptionist will normally make a good outside sales candidate. He or she handles several hundred calls a day (hopefully), and greets and knows all the mill reps and customers. This individual also has the personality, appearance, and chutzpah needed to represent your firm in the field.

Now let's assume you decide to give "Alice" a shot at your sales position. Alice has been with your firm for six years as an inside fine paper order desk person, she's loyal, dependable, hard working, and has an outgoing personality. She is professional, likeable, and can juggle 18 balls in the air at one time. Who knows, she might even play golf. Let's not forget she is only making $13,500 a year.

Sit down with Alice and say, "Alice, I've always been impressed with the quality and quantity of your work. I'm looking for an outside fine paper sales rep and I think that with some professional sales training you can handle the position."

Now you must remember, here is a person who has never made a new account "cold call." Her job for the last six years has been answering inquiries, giving quotes, making alternate product suggestions, finding an order that was supposed to have been shipped yesterday, and handling 40 other problems that come up during the normal business day.

Let her know that you want her to work into the position and will pay for her to take the Xerox PSS III Program. I suggest she work outside every morning and come inside at 1 p.m. every afternoon to her old job. The benefits are that you've instilled a sense of loyalty (even if Alice doesn't want outside sales she will appreciate the offer). If she takes the job, instead of hitting the parking lot at 5:01 every afternoon, Alice might work until 6 p.m. or later to get orders written.

When she accepts the challenge, let her know that she will keep her salary, receive 22 cents a mile for her car, plus receive up to $20.00 when she takes a customer out to lunch, etc. And of course, be sure to pay her the percent of G.P. (from dollar one) that is appropriate. After she hits $50,000 in G.P., no more expenses and when she hits $100,000 in G.P. you will gradually eliminate her salary, or whatever arrangement you like. Do not set calendar dates for her. Give her a week to think about it. If Alice is married, make sure you ask if it would bother her or her husband when she starts making more money than he does.

SEED OR SOD?

By Carl Coco, Jr.
Professions Unlimited

One of three things will happen, all of them positive:

- After three months of COLD calling and getting wet in the rain, Alice will beg to go back inside eight hours a day. If you allow her to, (and you should) she will hug her desk and phone each day and be more understanding of the outside sales reps' tantrums.
- Alice will do a so-so job, stay 50% inside and 50% outside, and write the small cut size and supply business out of the warehouse that the 20 year fine paper salespeople turn up their noses at (with nice trading margins).
- Alice will become a shining star making you and her a great deal of money, get into accounts you couldn't get before, or get back accounts you've lost. Now you have an outside sales person who is your most loyal, she is non-recruitable, and will never forget the opportunity you gave her.

Before you know it, in will come a call from Mary who has been with a competitor for eight years. Mary is only making $12,500 a year and wants to get into outside sales. She has heard through the pine-cone vine that you promote from within. (Besides, Mary does not have a non-compete contract.)

Expanding Current Product Base

Are you satisfied with your current market share? Fine paper merchants with less than 5% market share geographically shouldn't be concerned about getting into flexible packaging or other product markets. Spend your energies, capital, and expertise on expanding your coated or cut size business.

How many in-plant print shops are in your market that you are unaware of? Hire a successful printing ink, printing supplies or a printing equipment sales rep and find out. The sales rep you hire with printing press background will continue to get leads through the years from the firm he left. In turn, he will pass on leads to them about potential equipment placement.

Expanding New Product Markets

If you have an acceptable market share and are committed to getting into other product markets, treat them as separate departments or divisions. Have your sales force specialize. It very seldom works to take an experienced sales rep from one area in your industry and try to convert him to another.

As an example, if your house specializes in industrial supply, first ask your ten sales reps if they would be interested in getting into fine paper, flexible packaging or whatever product line you want to build. If any of them would be interested, let them know up-front that they must relinquish all supply business they currently manage. You, of course, will offer to protect them with a salary for two years at their current levels of earnings. After the ten industrial supply reps tell you **NO!**, you then expand in one of four ways:

- Buy an existing house specializing in the market in which you have an interest.
- Recruit an experienced manager. The person you hire should be committed, very stable, an over-achiever with an excellent reputation in the industry in which you want to expand. He should have strong building and sales training skills with an accountant's mind. He must be able to bring some key mills with him. You need to be prepared to give him complete responsibility for budgets, staffing, product selection, inventory levels, and pricing. Remember, *he* is the expert. Plan to invest (lose!) money for one to three years before turning a profit.
- Hire two to four experienced sales reps with at least $100,000 in G.P. who can bring business and lines. As in hiring an experienced manager, this would show the mills you want to give them a commitment. Pay them a salary of at least as much as they are going to make this year, preferably a two year commitment. Pay them 50% commission of G.P. their first year, 40% their second year, and give them your normal commission plan their third year. If commission worth exceeds their salary, pay them the difference. A strong experienced sales rep will pull 20% to a maximum of 50% of his current customer base his first year if you carry comparable lines. Make one of them your manager the second or third year.
- Hire several trainees who know about your current or expanding business. After six months they have found out that five of your industrial supply reps are making $50,000 to $150,000 per year. Before you know it, your new reps are selling industrial supplies. (Heaven help you if one of your heavy hitters retires; the new Specialist will be in front of the line asking for some of the retiree's industrial supply accounts.)

To develop internal loyalty, recruiting outside talent is a second choice. There are times, however, when your need is growing faster than the development of your personnel. A wise manager knows when and how to make the right decision on which way to go.

NEW DIMENSIONS IN MERCHANTING

Revolutionary ways of doing business require that paper merchants train their people to respond to a changing business environment.

Because the sales function in many paper distributorships has not been as closely and objectively scrutinized as it should be, opportunities for increasing sales productivity abound. Look at these items for example: cost of sales that is out of line with industry averages, an inability to quickly respond to customers' needs, salespeople who have either too many or not enough accounts to cover, the inability to respond to new trends in the sales environment, the need to develop and implement new and innovative selling techniques.

Developing an effective sales strategy for the 1980's and beyond requires the paper merchant to respond to three dimensions: new technology, value-added selling and management leadership.

Increasing sales productivity is not as simple as instituting a "state of the art" training program or merely announcing an exciting new sales contest. *It means responding to and integrating new technology, value-added selling and effective management leadership.*

Technology For Tomorrow

Merchants' attitudes towards new technology is largely shifted from wariness and fear to enthusiasm. Yet, in this period of growing acceptance of and fascination with technology, merchants still selectively approach new methods in telemarketing, computerization and video training.

Telemarketing: For many years, merchants believed that the phone could be used to make an appointment with a prospect, and avoided letting the conversation drift into the actual sales point.

In order to remain competitive, new ways have been found to reduce expenses and increase sales. Telemarketing is the answer. First of all, through telemarketing an aggressive merchant can pick up the existing or potential business of less aggressive competitors. Second, growth creates enthusiasm in both customers and employees. A growing company is more attractive for a business relationship and tends to interest more competent employees.

The following functions can be carried out by a telemarketing program. Telemarketing can:

- Generate leads from strategically selected lists and with a controlled offer.
- Qualify leads from all sources to determine: potential due to size of prospect and type of product interest; name of decision maker; immediacy as well as complexity of the need.
- Sell products. Based on potential, product and territory: the sale can be made on the phone and/or the mail; coordinate between the prospect and the field salesperson to close the sale with minimum personal calls.
- Be a clearinghouse for all service calls from customers to determine the potential for additional sales.

Computerization: Recognition of the arrival of a computer age occurred in the 1960s when computers were still very large and extremely expensive. Early mainframes occupied entire rooms; their use restricted to corporate giants with a great number of service people required. Employees would bring work to the computer room and leave it to the experts to process.

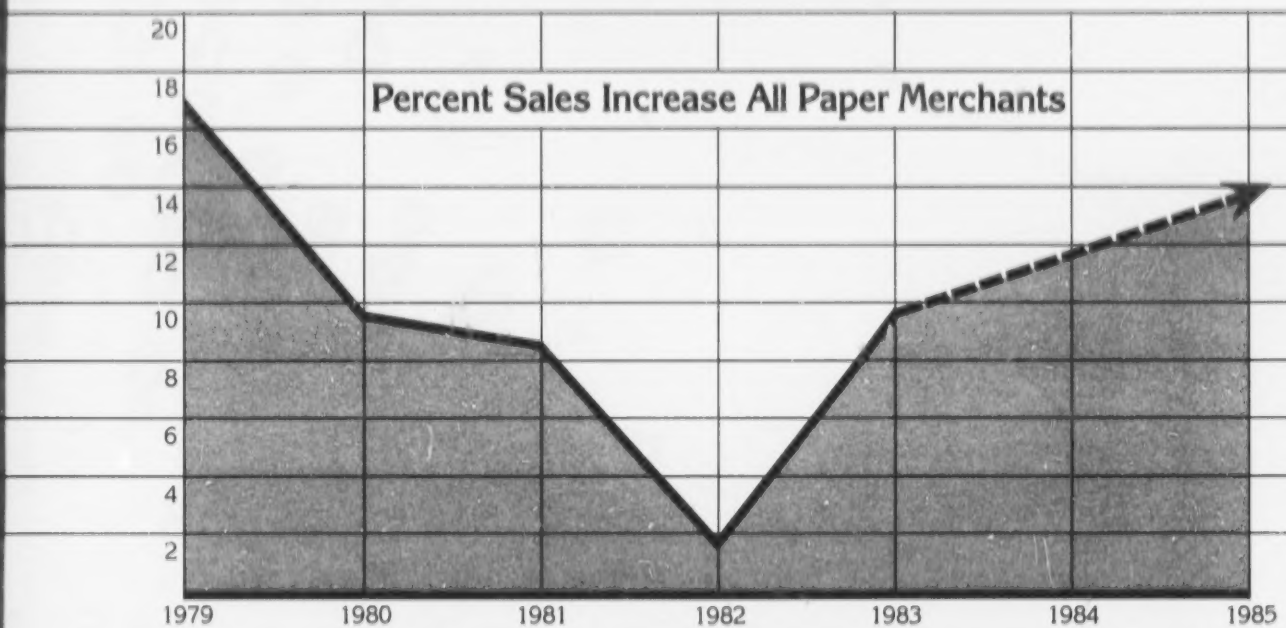
But all this has changed. Today, computers need not be separated from the merchants needing data. Machines are smaller, relatively low priced, continually expanding in power and far easier to use. As the computer revolution is taking hold, two significant trends are taking place: computerized management has become so wide-spread that even the smallest merchant house are going on line; new applications are being developed as more and more top-level managers and salespeople use computers as a daily business tool. NPTA's annual *Trends in Paper Distribution Computerization Conference* in Orlando, FL, November 13-15, 1984 will explore the effects of this new technology.

Video in Training: For inhouse training, ½" VHS videotaping is the most flexible format for instruction. It offers opportunities to upgrade professional standards and increase a company's profits.

The revolution in video training is upon us all. Paper merchants have begun to realize that its applications are virtually limitless: to share messages from management (especially significant for multi-branch operations), to capture

NPTA'S ANNUAL

SALES DEVELOPMENT CONFERENCE



If the question is how to increase your *1985* sales, NPTA's Sales Development Conference has the answers.

Atlanta, Georgia **December 10-11, 1984**

National Paper Trade Association, Inc., 111 Great Neck Road, Great Neck, New York 11021

visualized sales meetings to be used in training programs, to monitor performance of salespeople, etc.

Ms. Tim Bulmer, Supervisor of Training, Sunclipse, Inc. in Montebello, CA, sees video training as the communicator of the 80s. As Ms. Bulmer will demonstrate in her workshop at NPTA's second annual *Sales Development Conference* in Atlanta, GA on December 10-11, 1984, "programs can be tailored to our type of distribution. For example, video coverage of a flowable installation certainly provides more information than a brochure." The opportunities are vast.

Value-Added Selling

As product lines have diversified, customers become more demanding and merchants' market shares shift in a more competitive selling environment, the distributor must look to new ways to capture customers and retain old ones. As today's customers become more demanding, the merchant must move to greater levels of sophistication in marketing and management.

As the sales environment changes, paper distributors are witnessing a new dimension in sales and marketing—Value-Added Selling. This is a marketing principle by which the salesperson sells the total concept of value and not just the price of the goods themselves. The merchant knows that three sources of added value can be addressed:

1. Added value from the manufacturer
2. Added value from the distributor himself
3. Added value from the salesperson himself

One of the secrets to value-added selling is knowing what opportunities are available in each category and how to relate these benefits to the bottom line for the customer.

Today's paper distributor is exploring two exciting areas of value-added selling:

1. *Specification Selling* - the actual specifying of a specific brand, grade, color, texture or basis weight of paper for a particular job. The fine paper salesperson is no longer merely a salesperson, but rather a consultant versed in the products being sold, and the various jobs they can perform.

2. *Contract Selling* - as merchants' sales efforts become more sophisticated, the types of customers they sell to change. And so do their needs and expectations. Part of this future trend is the increasing use of contractual arrangements between the distributor and its customer.

3. *Strategizing for Account Development* - buying decisions are based on how well merchants' account strategies reflect the customers' professional and personal priorities. Strategizing enables a salesperson to identify the different categories in which needs can be grouped. This helps him to recognize the signals that indicate which needs are present, to take account of these needs on an individual call and in a total account development strategy.

Management Leadership

Paper distributorships' growth has traditionally been through more efficient and progressive methods of sales and marketing management and financial planning. In the 1980s, we have begun to see a new dimension and marked change. With growing concern over productivity, and need for new markets, paper distributors are now looking inward. There is interest in developing company personnel who operate at their full potential. The key to this new growth will be employee development predicated on supportive management attitudes.

Effective management leadership rests on selecting, managing, controlling and directing personnel with an emphasis on strategic and tactical planning, managing by objective, time management, motivation and control and appropriate compensation.

Inhouse training is becoming an increasingly important role of the sales manager. He or she is constantly looking for new ways to train a new sales rep, exciting ways to conduct a sales meeting a profitable means of establishing effective supplier relationships.

Sales Development Conference - An Opportunity for Growth

NPTA's second annual *Sales Development Conference* provides participants with the necessary tools to address these issues and provides merchants with the means of maintaining their competitive edge. The December 10-11 Conference, scheduled in Atlanta, GA can help merchants achieve a performance standard of excellence. The many workshops, printing and industrial sessions, distributor/supplier panel discussions all provide practical solutions that enable merchants to translate plans into day-to-day operations that reap consistent, long-term results. For more information and registration contact NPTA's Education and Training Department.

EVENTS

NOVEMBER

12-16. *Printech Week at RIT, Rochester, NY. Contact NPTA.*

13-15. *Trends In Paper Distribution Computerization Conference, Florida Center Hotel, Orlando, FL. Contact NPTA.*

29/1. *Phoenix in the Fall - A printer's celebration. Phoenix Civic Plaza, Phoenix, AZ.*

DECEMBER

10-11. *Sales Development Conference, Colony Square Hotel, Atlanta, GA. Contact NPTA.*

JANUARY

18. *Productive Opportunities For Paper Merchants, Los Angeles, CA. Contact NPTA.*

25-27. *Tenth annual Graphics of the Americas Show, Miami Beach, FL. Contact Printing Industry of South Florida, Inc., 305-757-3334.*

28-31. *EXFOR '85, Pulp and Paper Equipment Show, Canada. Contact Canadian Pulp and Paper Association, 514-866-6621.*

SALES DEPARTMENT PERFORMANCE

Part II: Inside Sales Performance

This is the second and final part of the Management Information article on paper merchant sales department performance. It is an analysis of merchant's *inside* (or sales service) personnel's performance for the years 1981-83. PAR (Performance Analysis Report) results presented in the following tables are *medians* (50% of survey participants' measures are better than these figures, 50% are below it).

Inside sales departments have become more fully recognized in terms of their potential contribution. With outside sales rep calls becoming more and more expensive, it makes sense to let them concentrate on new account development and maintain face-to-face contact only with important customers.

The sales service department can make outside reps' time more productive by: pre-qualifying sales leads, handling routine requests for prices, availability, and product information, and expediting business of marginal accounts.

Following is a summary of inside sales department performance for the three kinds of paper merchants:

Printing Paper

Sales service expenses have been taking a larger bite out of printing paper merchants' gross profits since 1981. They accounted for 9.7% of gross profits in 1983, and the 3-year average is 9.4%. This rate is higher than both industrial paper and dual merchants. Companies in the $8-15 million sales volume category had the highest costs at 10.5%.

Sales per sales service employee rose 7.8% to $2.42 million in 1983,* the highest of all three merchant groups. Average pay per sales service employee rose 6.4% to $18,200. Over the period 1981-83, pay increases outpaced sales per employee 6.9% to 4.9%. Compensation was highest in NPTA Region 2 (see p. 25 for list of NPTA regions) and lowest in Region 6. Pay was considerably higher than the median, $19,500, for companies in the $15-50 million sales range. Gross profits per employee have risen an average of 2.3% yearly, to $361,000 by 1983. Region 5 firms were substantially higher at $472,000.

The median sales service employee at printing paper firms handled 3,745 orders during 1983.* In companies with sales under $8 million, these employees handled 4,646 orders. Region 3 firms were highest at 5,629. The number of invoice lines handled was roughly twice the number of orders, 8,592 by 1983,* with Region 5 and 6 firms a little higher than average.

Firms with $50+ million in sales handled substantially more invoice lines at 10,042 per sales service employee. Gains in the number of orders and invoice lines handled per person have been strong in recent years, probably reflecting merchants' increased use of computers.

Industrial Paper

Sales service expenses as a percent of industrial paper merchants' gross profits have leveled off at 6.6% for the past three years. This is the lowest rate of the three merchant groups. In Region 6, however, expenses were 9.4%, and for firms in the $3-6 million sales volume, 8.3%.

Sales per sales service employee hit $2.12 million by 1983,* and are up sharply from $1.39 million in 1981. In fact, average yearly gains in sales per department employee were 26%, far outpacing salary increases averaging 5.6%. The average pay per sales service employee stood at $15,900 by 1983. NPTA Region 2 merchants paid the lowest salaries, while Region 5 firms had the highest rate. Gross profits generated per employee rose to $452,000 by 1983. They were much lower than this median figure in Region 6 ($259,000) and for companies with $25+ million in sales ($286,000).

The median industrial paper sales service employee handled 7,494 orders in 1983,* highest of all merchant groups. This is up sharply from 6,150 only two years before. Region 3 merchants have a much higher rate of 12,500, as do firms with sales under $3 million, 13,737 orders. The number of invoice lines handled rose to 27,188 by 1983,* but was much higher for companies in the $12-25 million sales volume - 44,137.

Dual Merchants

Sales service expenses represented 8.8% of dual merchant gross profits in 1983, about the same as 1982. This is second highest of all merchant groups. For companies with sales under $4 million, this rate was higher, 11.1%.

Sales per sales service employee inched up to $1.82 million by 1983,* with increases averaging 5.6% since 1981. Compensation has only increased 2.3% yearly, however, to $16,200 by 1983 for the median sales service person. Average pay for these employees rose relative to company sales for dual merchants. Gross profits generated per employee actually fell, to $301,000 by 1983. Average yearly gains here fell by 3.7%. Region 4 and 5 firms had substantially higher rates at about $390,000 per sales service employee.

The number of orders handled per sales service employee fell slightly to 4,309 in 1983.* This figure was higher for companies with $4-10 million in sales, 5,161 orders, and in Region 7, 6,150 orders. The number of invoice lines handled rose 9.5% to 11,134 by 1983.* Average yearly increases in both orders and invoice lines handled were about 5%.

***Editor's Note:** Typically, paper merchants employ more outside salespeople than sales service or "inside sales" personnel. Therefore, when dividing total company sales by the number of such people, the amount may appear high. In printing paper firms, for example, there are 2 outside sales reps for every sales service person. Consequently, the average sales generated per sales service person is $2.4 million, vs. $1.2 million for outside reps. It is important to remember that the sales' service person did not actually generate $2.4 million himself/herself. Total sales produced by *all* employees are merely divided by the number of sales service people.

Sales service expenses were 9.7% for printing paper merchants, 6.6% for industrial firms and 8.8% for duals.

Inside Sales Department Performance Measures
(Medians)

Printing Paper Merchants	1981	1982	1983	Avg. Yearly Change
Sales Per Sales Service Employee ($000)	$2,208	$2,251	$2,426	4.9%
Avg. Pay of Sales Service Employees ($000)	16.0	17.1	18.2	6.9
Gross Profit Per Sales Service Employee ($000)	345	347	361	2.3
Sales Service Expense As % Gross Profit (%)	8.9	9.6	9.7	--
No. of Orders Handled Per Sales Service Employee	3,362	3,346	3,745	5.7
No. of Invoice Lines Handled Per Sales Serv. Empl.	6,888	7,193	8,592	12.4
Industrial Paper Merchants				
Sales Per Sales Service Employee ($000)	$1,395	$1,862	$2,120	26.0%
Avg. Pay of Sales Service Employees ($000)	14.3	15.3	15.9	5.6
Gross Profit Per Sales Service Employee ($000)	330	419	452	18.5
Sales Service Expense As % Gross Profit (%)	6.4	6.6	6.6	--
No. of Orders Handled Per Sales Service Employee	6,150	6,828	7,494	10.9
No. of Invoice Lines Handled Per Sales Serv. Empl.	18,833	24,985	27,188	22.2
Dual Paper Merchants				
Sales Per Sales Service Employee ($000)	$1,638	$1,806	$1,820	5.6%
Avg. Pay of Sales Service Employees ($000)	15.5	15.9	16.2	2.3
Gross Profit Per Sales Service Employee ($000)	325	325	301	-3.7
Sales Service Expense As % Gross Profit (%)	7.8	8.7	8.8	--
No. of Orders Handled Per Sales Service Employee	3,930	4,371	4,309	4.8
No. of Invoice Lines Handled Per Sales Serv. Empl.	10,113	10,172	11,134	5.0

Source: Annual NPTA PAR Surveys

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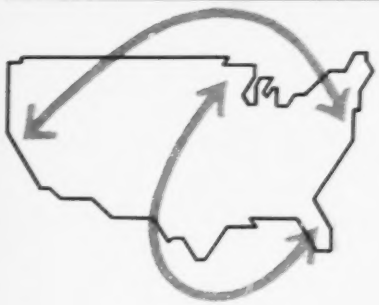

Professions Unlimited is a 12½ year old recruiting firm specializing in the paper distribution industry with emphasis on flexible packaging, fine paper and industrial supplies. Professions has placed over 100 people in these areas since 1981—from New York to California, Minnesota to Florida. 80% of those placed were experienced in the paper merchant trade, the remainder were from manufacturers serving paper merchants.

To find out how you or your firm can benefit from our services contact Carl Coco, Jr., CPC, Executive Vice President at Professions Unlimited.

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PROFESSIONS UNLIMITED, INC.

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GREATER PRODUCTIVITY IN WHOLE

Discussion of productivity is everywhere. Its persistent decline counters the dramatic increases through the 50's and 60's. Reviving the increase in productivity is the key to real growth in earnings and everyone's standard of living. Employees have taken personal measures to avoid reducing their lifestyle, but now they are frequently turning to the employer and demanding that the company keep them ahead of inflation with greater raises. But, Corporate America is behind on inflation, too. It has been liquidating its resources, thanks to taxation on inflationary profits and an inability to cut dividends. And, Corporate America is looking at a competitive, slower growth economy which means that growing out of the problem is not a likely option for many companies.

There are many reasons cited for the productivity decline. More regulation has caused more inefficiencies in the free market system. Environmental, OSHA, and pension laws have provided a cleaner, safer, more secure environment, but these are not quantifiable and are readily forgotten as components of the standard of living. Inexperienced and disinterested workers are entering the labor force. These "new value" employees are responsible to themselves first wanting psychic reward and fulfillment which is found mostly away from routine jobs. Work performance deteriorates, but they expect more pay. The "old value" worker who sacrificed for the betterment of his family, the company, and his country seems to be disappearing. There are other causes, too.

Distribution's Opportunity

Distribution industries should take special note of these social trends and employee pressures. Distribution is more people-intensive than most industries and has less automation opportunities. Also, intuitively, most distribution businesses have optimization potential, as do all small, people-intensive, service businesses. The mark-ups on products seem high considering the safe liquidity of the assets and the simple value-added function of distribution when compared to the cost of computing power or the operating margins within the food processing industry. That is the difference between people and machines.

The term seat-of-the-pants management has and still does fit many distributors, who necessarily wear many hats, fight many fires, and cannot support sophisticated overhead to provide good control systems for a business. That is changing. For example, the efficiencies gained in inventory control in all distribution functions over the past five years has been phenomenal, and there is still more to be realized.

Finally, distribution management has done, historically, little planning. This has been coupled with a reactive style of management to new problems—solving them when they occur versus anticipating and acting now to avoid crisis, expense, and time-traps. *Necessity is forcing distributors to plan and be proactive.* The rate of change is faster; the problems larger; a reactive manager might not have the time or resources to cope any longer.

Where To Start: At The Top

Many managers think of hourly and clerical workers when productivity is mentioned. Picks/hour and invoice/office hour are measurements for areas where most of the employees are. All employees want to out-earn inflation, so the managerial reflex is to dream of having incentive, productivity programs for the majority of employees. Then, what they do is what they earn. This is possible, but the biggest benefits and helpful direction for designing programs for the hourly workers are both found at the top of the organization. Some key areas to consider are:

1. If a distributor is lucky and clever, he may have two to four **"tigers"** in key positions (division manager, sales manager, senior buyer, operational manager). These people hopefully have high energy levels, good interpersonal skills, technical knowledge, and high dollar motivation. An hourly worker might work 5 to 10% harder and smarter, whereas a tiger with incentive may work 50% or more effectively. He can implement programs that create operational and strategic leverage for the entire organization. *How you compensate the tiger is a key productivity resource.* If such a person cannot change his income by working sensatinally hard, then he might leave the company, physically or mentally. These key people when recruited, trained, targeted, and compensated creatively with incentives can do more for a company's performance than any other resource.

2. **Assets:** perhaps as much as 50% of a distributor's **inventory** is non-moving, excessively over-stocked, or low turn-earn. With a computer a 20% level is a reasonable target. For **receivables,** the sales force could have a negative incentive to share fairly the interest cost of receivables for their accounts which are past due some designated

SALE DISTRIBUTION

By D. Bruce Merrifield, Jr.
The Merrifield Consulting Group

number of days. Combine this measure with some positive incentive for a credit manager, and days outstanding should improve several days. *These measures free enormous investment.*

3. **Account and sales management:** A sales manager should spend 80% of his allocated time for the field with the two to three salesmen out of ten who need the training the most and are probably digging the hardest. And then, he should be calling on accounts which are explicitly designated as targets, problems, or prospects. Repeat, goodwill calls with experienced salesmen on established accounts are minimized. In the problem account area, the accounts that are unprofitable should be reformed or gently nudged to an unknowing competitor whose capital and overhead can be occupied, while target business is addressed at your firm.

4. **Buying and selling:** The two most sensitive factors for a distributor on his profit and loss statement are opposite sides of the same coin. *For every percentage point that cost of goods sold can be lowered or the gross profit on sales raised, the return on assets rises about 3%.* Senior buyers know many tricks for gaining concessions from suppliers; case studies for new buyers can accelerate the development of their awareness and judgment in gaining such concessions. Considering also that a buyer often quotes on the sell-side and manages inventory investment, he is vital. *A well recruited, trained buyer with an incentive is an awesome productivity opportunity.*

5. **Promotions:** Cracking new accounts and launching new product lines must be done over time. By selecting **screening criteria** that should be met before new accounts and new products are pursued, the probability of successful attempts can be dramatically improved which also reduces the number of costly programs that don't work. Also, a cross-referencing of top stocking items with top customers always reveals new opportunities. Selling a familiar, well stocked item, from a reputable supplier to an established customer is about fifteen times easier than selling the new item to a new customer. *Incrementally, realize the easiest new business before progressing to the more difficult.* Sell old items to old customers before progressing eventually to new items to new customers.

From The Bottom Up

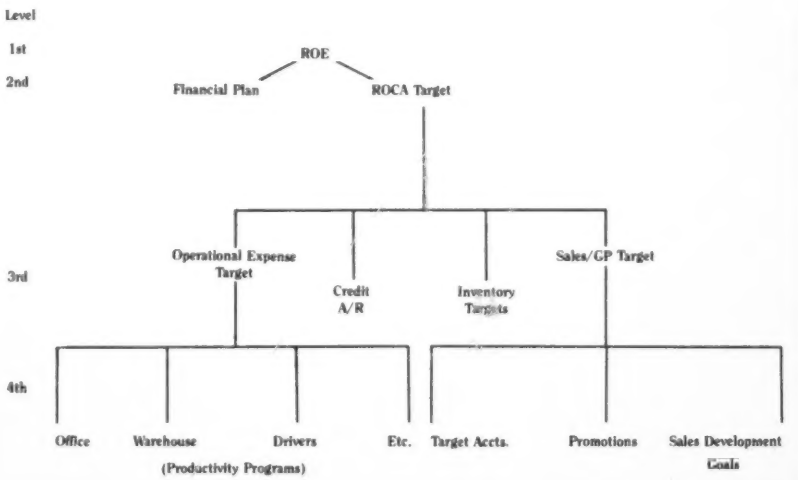
At a reasonably managed, small firm, the hourly and clerical employees are steady and accurate at what they do, assuming a year or more of experience. (Obviously formal training efforts with new employees will accelerate productivity and reduce the number of errors.) The productivity efforts should *focus less on working harder or faster and more on working smarter*—fewer errors, boosting average order size at the city desk, more efficient routing of trucks, more safety with workers and the equipment, better cooperation, reducing damage and wasted supply usage, and better understanding of the company's general goals and how each employee relates to those goals.

On cooperation and understanding of general company goals much could be said, but a few simple concepts. Employees have more interest and care for work when they know how their job relates to the general company goals, which if achieved benefits the whole team and translates into higher raises. Remember the two bricklayers - one is laying bricks, and the other is helping to build a beautiful church.

Secondly, assume that each employee has a little extra energy and time to add to the job beyond the routine of the day. If all employees know of a few operational goals for the company, then they will direct their energy towards those ends. It is like light passing through a ruby quartz crystal. For input, there is multi-waved, dispersed, white light; as output, there is a unified, monochromatic laser beam. People's well intentioned extra efforts will be multi-directional, incomplete, poorly focused, or conflicting unless they are channeled in the same direction.

Program Implementation And Design

1. **The hierarchy of productivity programs:**



At level 1, start with a target for shareholders ROE (return on equity). This gives the company a financial plan and provides the management team with a ROCA target (return on controllable assets - inventory and receivables). To achieve the ROCA target, sales has a gross profit target to hit, and operations has an expense target. Meeting both insures a certain operating profit which is the numerator for the ROCA equation. Then, receivables and inventory, the controllable assets, must hit their average target levels to insure a denominator that provides the desired return.

Managers on level three should have formal productivity programs and should have appropriate incentive based on some ROCA concept. Then, they would all be trading-off getting more gross profit growth against being tight on receivables, inventory and expenses—the service factors that new business is built on. If one manager had incentive for profit growth only, while another was compensated on keeping receivables low, there would be conflict. All programs in the hierarchy must feed into the ones above, and all incentives must be designed so that they are internally consistent with other team member incentives.

2. **MBO:** Use some goal-setting methods, but keep it simple and to scale for a small company.

3. **Interpersonal motivational skills:** Don't assume that a manager can run a goal-planning meeting and evoke maximum, open participation; that he can offer effective feedback in the form of crediting or constructive criticism; or that he can manage differences between himself and subordinates. There are excellent training programs for learning and reviewing these skills. *It is these skills that make the team succeed or fail regardless of how good the goals or plans are.*

4. **Work unit planning sessions:** For the office, warehouse, driving, etc., crews, there are some simple procedures for staging successful planning sessions. The approach should be to scale and not too formal.

5. **Designing a program:** The complexity, duration, ambition, and reward of a program must be consistent with the average maturity and attention span of the group. A mnemonic to use for the steps in designing a program is PRICE:

P - Pinpoint the problem to focus on.

R - Record and measure the past rate of behavior. This establishes a baseline and reference for setting a goal level.

I - Intervene and inform the employees of the past. Ask for group concensus on a goal. Expect to modify it downward due to over-ambition.

C - Consequences. These must be reinforced when desired behavior is performed.

E - Evaluate the trend. Are you getting the intended results? Are there some surprise by-products? If there are problems, rethink the program. If successful, be enthusastic.

6. Make productivity planning part of the formal corporate culture.

Through telling and selling, repetition and written documentation, the philosophy and procedure should be institutionalized.

There is a great productivity opportunity in distribution. To realize efficiencies is a big option for profitability in a slow growth era. Programs enrich the jobs of most employees and also provide a means for higher income. Both benefits are consistent with the general labor force demands in the 80's. And programs are easily done in a small business atmosphere.

D. Bruce Merrifield, Jr.

Bruce Merrifield is a business consultant specializing in wholesale-distribution. He has done seminars, research and special projects with NPTA as well as companies of many different types in distribution. His manufacturing clients that have an interest in distribution include AT&T, Coca-Cola, Raymond Corp., Westinghouse, Gould, and others. He writes a series of essays entitled "Distribution Concepts" that is offered on a subscription basis and his most common seminar topics address the areas of financial management, sales management, top management development and corporate strategy—all for distribution.

Prior to consulting, Merrifield, a graduate of Princeton and Harvard Business School was in the paper distribution business for six years. He was with a successful growth-by-acquisition chain that was noted for its state of the art management techniques and high profitability. His ideas on managing sales for growth are tested and well suited to paper distribution.

ACTIVITY

SEPTEMBER, 1984

PAPER MERCHANT SALES REPORT

NPTA Regions	Sales Per Selling Day September 1984 - Compared To - September 1983	Sales Per Selling Day September 1984 - Compared To - August 1984	Sales Per Selling Day 1984 Year-to-Date - Compared To - 1983 Year-to-Date	Days Outstanding (Accounts and Notes) At Close of Sept. 1983	1984	Calendar Days' Cost* of Ending August Inventory 1983	1984
INDUSTRIAL							
1	+8.5	+9.6	- 9.3	42	46	--	--
2	+11.9	+3.4	+ 4.6	34	37	55	51
3	+ 8.6	+0.4	+14.3	34	37	64	64
4	+ 8.3	+2.2	+10.7	36	39	53	51
5	+12.6	+6.9	+ 2.2	37	36	55	57
6	+ 3.5	-3.7	+10.6	38	40	--	--
7	+ 4.1	+4.3	- 3.5	35	38	59	57
NY Metro	+12.6	-3.0	- 3.3	43	46	--	--
Chicago Metro	+10.8	+8.6	+ 0.7	37	38	54	--
LA Metro	+ 7.2	+1.7	+10.5	50	52	53	--
US	**+ 8.3**	**+1.8**	**+ 8.3**	**37**	**40**	**56**	**55**
PRINTING							
1	+20.9	+9.6	+29.7	52	49	--	58
2	+20.3	+8.0	+28.5	44	47	62	62
3	+25.8	+7.9	+28.2	44	43	80	78
4	+15.4	+7.4	+21.2	45	40	75	71
5	+17.7	+9.1	+26.4	43	41	--	--
6	+16.7	+2.7	+13.8	39	40	--	--
7	+20.8	+7.2	+12.5	43	38	82	76
NY Metro	+23.3	+7.0	+38.1	42	42	--	--
Chicago Metro	+13.4	+11.0	+32.6	44	43	--	--
LA Metro	+9.8	+1.1	+24.6	40	43	69	79
US	**+19.0**	**+7.0**	**+26.3**	**43**	**43**	**74**	**72**

*To calculate monthly inventory turnover, divide 365 calendar days by # of calendar days cost, e.g., 365/73 = 5.00x.

Region 1: CT, ME, MA, NH, RI & VT
Region 2: DE, DC, MD, NJ, NY & PA (excluding NY Metro)
Region 3: AL, FL, GA, NC, SC, TN & VA
Region 4: IL, IN, KY, MI, MO, OH, WV & WI (excluding Chicago Metro)
Region 5: CO, IA, KS, MN, MT, NE, ND, SD, WY
Region 6: AK, AZ, CA, HI, ID, NV, NM, OR, UT & WA (excluding LA Metro)
Region 7: AR, LA, MS, OK & TX
NY Metro: NY: New York City, Long Island and Westchester Co. NJ: Counties of Bergen, Essex, Hudson, Middlesex, Passaic and Union

Chicago Metro: IL: City of Chicago and Cook, DuPage and Lake Cos. IN: Lake Co.
LA Metro: Cities: Los Angeles, and San Diego. Counties: Los Angeles, San Diego, Orange and Ventura (and neighboring parts of Riverside and San Bernadino)

Selling Days
The actual number of days a firm was open for business or that the sales people made customer calls [calendar days less weekends (if applicable) and holidays]. By supplying selling days of each firm, the sales per selling day are standardized according to actual business conditions or company policies.

Days Outstanding
The number of days outstanding on this report are calculated by adding the current month's sales and the previous month's sales and dividing the total by the number of calendar days of the two months. The result is a figure representing average sales per calendar day.

The total figure provided for closing accounts and notes receivable is divided by the average sales per calendar day. The result is the number of days outstanding at the end of the month being prepared.

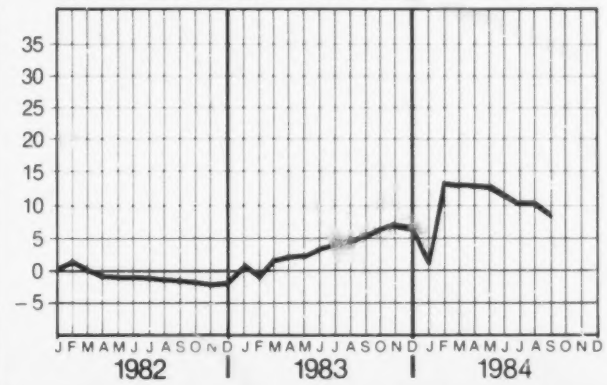
PAPER MERCHANT SALES REPORT

SUMMARY NATIONAL TREND INFORMATION: 1982 TO PRESENT

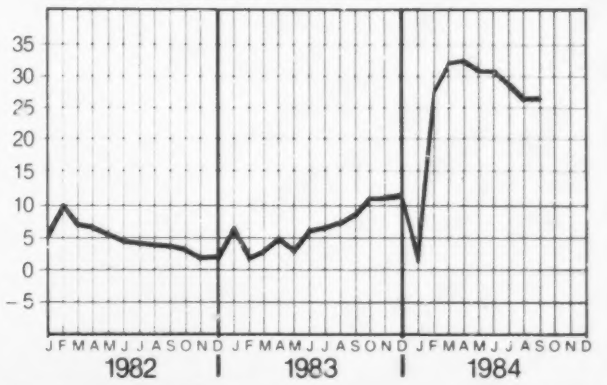
SALES INFORMATION

YEAR-TO-DATE SALES PER SELLING DAY AS A PERCENTAGE OF PREVIOUS YEAR'S YEAR-TO-DATE SALES PER SELLING DAY

INDUSTRIAL PAPER SALES NATIONALLY



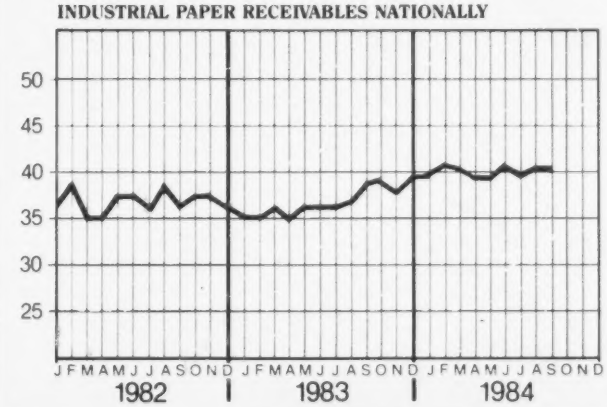
PRINTING PAPER SALES NATIONALLY



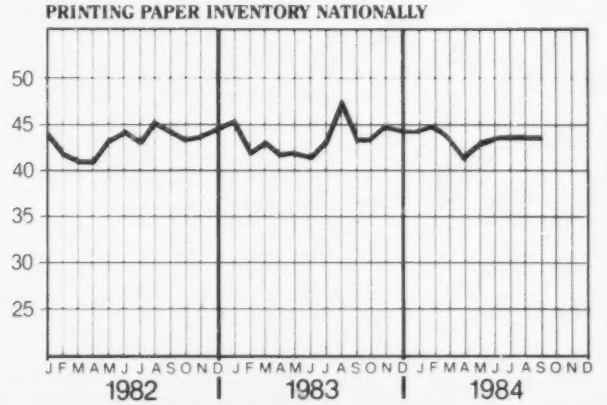
RECEIVABLES INFORMATION

DAYS OUTSTANDING—ACCOUNTS AND NOTES RECEIVABLE FROM PAPER SALES AT END OF EACH MONTH (IN CALENDAR DAYS)

INDUSTRIAL PAPER RECEIVABLES NATIONALLY



PRINTING PAPER INVENTORY NATIONALLY

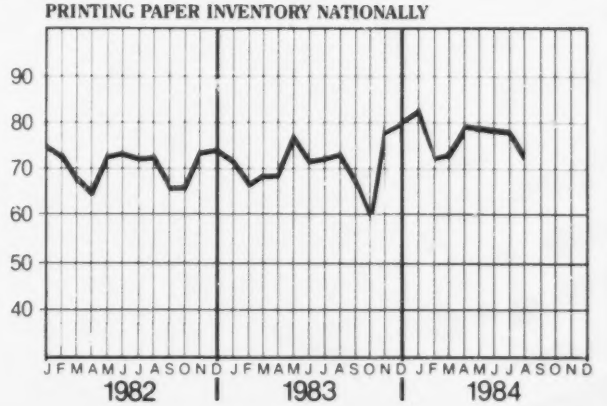


INVENTORY INFORMATION

CALENDAR DAYS COST OF ENDING MONTHLY INVENTORY (FIFO) (IN CALENDAR DAYS)

INDUSTRIAL PAPER INVENTORY NATIONALLY

PRINTING PAPER INVENTORY NATIONALLY



CUSTOMER COMPLAINTS CAN IMPROVE SERVICE

Certainly not a new idea, but a good one. It pays to review a few items that will help the company improve its service to all customers. As reported in the Research Institute of America's **Alert**, *the paradox of business is that the customer who complains is* **more** *likely to be a repeat customer than one who does not.*

Here are some rules to keep in mind: 1. Maintain a running count of the types of complaints the company receives—sort them and try to identify areas that need help. 2. Never let employees treat a complaint as the customer's fault—a complaint should be seen as a second chance for the firm providing the service. 3. Provide phone numbers and specific names of employees to call when customers have a problem—make it easy; insure complaints **are** *handled. 4. Make small adjustments automatically at point of contact—this can reduce paperwork and resolves the problem quickly.*

ARE YOUR PEOPLE PLAGUED BY THE VIDEO BLUES?

Dr. Leon J. Warshaw of NYU claims VDT (video display terminal) operators may be vulnerable to severe stress-related disorders caused by job dissatisfaction and loss of job security he calls "video blues." This can range from depression to insomnia and is characterized by fatigue, physical isolation and monotony.

There are an estimated 10 million electronic workstations in place in the U.S. and Bernard Gallagher in the **Gallagher Report** *expects that number to reach 50 million by 1990. VDT-related health risks may be great. A 2½ year study at Mt. Sinai hospital in New York found that VDT operators suffer more headaches, eyestrain, neck and back pain compared with non-users. And, VDT operators were absent from work ¼ day per year more.*

A FREE BUSINESS NEWSLETTER

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LEGISLATIVE REFORM

IMPACT OF BANKRUPTCY REFORM

Enactment of the Bankruptcy Court Reform Act has broken a two-year deadlock that threatened to destroy the U.S. bankruptcy system reports the National Association of Wholesaler-Distributors. A Supreme Court decision in 1982 created a crisis in the system when it ruled it was unconstitutional for bankruptcy judges to decide certain disputes because they didn't have life tenure and thus were not totally independent of any other branch of government.

Later, the Supreme Court added fuel to the fire by ruling that financially troubled companies could unilaterally void labor contracts in a bankruptcy proceeding. In addition, the 1978 amendments to the law had created serious abuse situations especially those involving consumer bankruptcies.

The preference provisions of the Bankruptcy Code impact significantly on wholesaler-distributors who are generally unsecured creditors.

While the reform law directs itself to the issues of judicial tenure, labor contracts and consumer debt matters, it does not address an area in the bankruptcy law that has impacted particularly hard on the wholesale distribution industry in this age of easy-to-obtain discharge of debts through bankruptcies.

Preference Payments

The preference provisions of the Bankruptcy Code impact significantly on wholesaler-distributors who are generally unsecured creditors. Under these preference provisions, a trustee in bankruptcy or a debtor-in-possession may avoid any payment or other property transfer by a debtor to or for the benefit of an unsecured creditor where the payment is made:

1. For or on account of a debt owed by the debtor which existed prior to the bankruptcy filing; and
2. Which was made while the debtor was insolvent; and
3. Is made on or within 90 days before the commencement date of the bankruptcy proceedings, where the effect of the payment is to enable a creditor to receive more than he would get in a liquidation under the Code.

The trustee or debtor-in-possession has the benefit of a presumption that the debtor was insolvent during the 90 days prior to the commencement of the case.

Pay-Back May Be Required

Under the preference provisions, a wholesaler-distributor, who is an unsecured creditor and who receives payment of a debt owed to him by a party that later goes into bankruptcy, could be required to *pay back* those funds should all conditions be met.

Protective Measures Available to Wholesaler-Distributor

There are a number of exceptions to the preference provisions of the law. One is termed the ordinary course of business exception and occurs where the payment is made within 45 days of the date the debt was incurred.

Thus, a wholesaler-distributor who bills in such a manner as to ensure that invoices are routinely rendered on a timely basis and that payment is made within 45 days from the date the debt is incurred can come under the ordinary course of business exception to the preference provisions of the Code.

Application of payments received can make a difference. By routinely applying payments to the most recent debts, the exception can be triggered. Thus, if a debtor has two open items, one 60 days old and the other 30 days old, application of a payment to the 60 day account will not trigger the exception but application to the 30 day account could, as long as the prevailing policy had been to routinely apply payments to the most recent debt.

Another exception to the preference provision can occur where a transaction is structured as a cash transaction rather than one for credit, if in fact, payment is made to the seller substantially contemporaneously with the delivery of goods or services. If payment is made by check, failure to immediately deposit the check or acceptance of a post-dated check can negate the contemporaneous requirement for the triggering of the exception.

Right of Reclamation

In certain situations, an unsecured creditor, such as a wholesaler-distributor who has sold goods to a buyer who receives the goods while insolvent, can stand in a preferred position as a creditor. This is through exercise of the right of

reclamation, which while a limited right is nevertheless valuable in particular situations.

The reclamation method will work in those instances where the wholesaler-distributor has just delivered goods and becomes aware of the bankruptcy of or of a plan to file bankruptcy by the purchaser. The wholesaler-distributor must then, before ten days elapse from the delivery of such goods, demand in writing the reclamation of the goods. The right of reclamation does not in the vast majority of cases result in a return of the goods, but the proper and timely exercise of the right does make the wholesaler-distributor a secured creditor as to those specific goods.

Effect of Labor Contract Provisions of the New Act

The new provisions relating to restrictions of unilateral voiding of labor contracts are designed to prevent financially troubled companies from unilaterally voiding a union contract. Such a company would have to seek court approval to break the contract after it has first tried to negotiate changes with the union. Where the proposed modifications are made in good faith and are determined to be fair and equitable to all parties and necessary for a successful reorganization of the troubled company, the court can order a cancellation of the contract. If the court fails to act within 30 days after commencement of "good faith" hearings on the application of the troubled company, that company may then unilaterally terminate the labor contract.

Consumer Code Bankruptcy Changes

Under the newly enacted law, a judge can deny a request of a consumer/debtor to write off all indebtedness if to do so would amount to a "substantial abuse" of the bankruptcy system. Debtors must now list current incomes in their filings and the law sets a $4,000 aggregate ceiling on all personal exemptions. Cash advances to debtors of $1,000 or more made within 20 days of a bankruptcy filing are presumed non-dischargeable under the law. Consumer code provisions generally tighten up the system to reduce abuse situations.

The compromise on the new bankruptcy court judges is still a matter of unsettled law and could result in a return of the whole bankruptcy package to the Congress. In the interim, the system needs to work efficiently to reduce the pending load of an estimated 600,000 cases involving companies with assets aggregating over $90 billion.

The new provisions are designed to prevent financially troubled companies from unilaterally voiding union contracts.

THE NATIONAL ASSOCIATION OF WHOLESALER-DISTRIBUTORS

Wholesalers in all commodity lines have eyes and ears in Washington: The National Association of Wholesaler-Distributors (NAW). And a strong voice. Formed more than 30 years ago to protect and advance the interests of distributors, the NAW stands today as one of the most influential business groups in the nation's capitol.

Wholesalers, through commodity line associations such as NPTA or directly, receive a steady flow of timely information on legislative affairs. There are more than 100 associations affiliated with NAW, supporting its efforts, thus creating a powerful federation. The combined strength of over 45,000 firms from throughout the country are represented by NAW and kep informed of its work on behalf of all wholesalers.

Specially, NAW has lobbied successfully for product liability reform, inventory valuation simplification and reform, capital investment incentives, tax reform, and a uniform federal procurement system. This has been accomplished through its "Washington Action Network"—a computerized file of wholesalers matched with the Congressional representatives; and through WDPAC—Wholesaler-Distributor Political Action Committees. In the 1980 election, WDPAC had an 80% winning record of all Congressional candidates supported.

NAW was able to accomplish these tasks because of its respect of the Hill. Both houses of Congress and the executive branch know of the association's integrity. These efforts have given all whoelsaler-distributors greater stature. Lawmakers in Washington have come to realize that wholesalers are an important part of America's business and economic mosaic.

NEW NPTA/HERTZ RENTAL PROGRAM

The success of this program has pushed discounts to 35% or more for NPTA members.

Through special arrangement with Hertz and the National Association of Wholesaler-Distributors (NAW), NPTA has obtained an increased rental discount for members of the Association. This provides a savings of 35% or more in the new *Nationwide Flat Rate* pricing structure.

This is the first program of its type in the country, reports NAW. When this was first offered to NPTA members in 1982, the discount was fixed at 13%. The volume generated by the program led Hertz to increase that discount to 18%, then 20% and 22% late in 1983. Now a year later, a whole new scheme with a much higher discount has been created.

The New Rates

The average discount is 35% or more. That applies to Hertz car rentals anywhere in the country. An example of the savings based on a "Class C" (mid-size) car can be seen in the table below.

The savings are great for all size cars as well.

Car Class	New Flat Rate Per Day
(A) Subcompact	$33
(B) Compact	35
(C) Mid-size	37
(D) Full-size, 2 door	39
(F) Full-size, 4 door	41
(Es) Full-size station wagon	44

The flat rate makes all calculations easier. Weekly rates are seven times the daily rate and monthly rates are four times the weekly rate.

Obtaining Discounts

A special "NAW/NPTA CDP ID#" is available from Association headquarters if it has not been received. All members of the Association have been advised of this in previous mailings. This number must be given to the Hertz reservationist or counter agent when renting a car to obtain the 35% discount. Be sure that the special number is entered on the rental agreement by the counter agent.

For more information, contact the NPTA Communications Department.

Mid-Size Car Daily Rental

City	Stand. Unlimited Mileage Rate	With Old 22% Discount	New Flat Rate	Total Savings	Effective Discount
Atlanta	$57	$44	$37	$20	35%
Boston	78	61	37	41	53%
Chicago	72	56	37	35	49%
Dallas	60	47	37	23	38%
Los Angeles	65	51	37	28	43%
New York	81	63	42*	39	48%
Tampa	51	40	37	14	27%
Washington, DC	72	56	37	35	49%

*The NATIONWIDE FLAT RATES will be $5.00/day higher in Manhattan, and at LaGuardia, JFK, and Newark Airports.

NEW REPORT ON FIELD SALES MANAGEMENT AVAILABLE FREE

NPTA's Education and Training Department has published an indepth review of the role of the field sales manager in the paper distribution industry. The eight page report is available free.

The article discusses the primary role and responsibilities of the paper distributor's field sales manager. The first and foremost objective of the manager is to maintain and increase company sales through its sales force. The methods involved include: developing sales personnel, reviewing performance, motivating the sales force, territory and account planning and sales control.

The traditional transition to a field sales manager position has been from the ranks of the field sales force. This makes sense because the job requires a basic, thorough understanding and knowledge of the selling process. It requires the development of new skills, attitudes and knowledge and it is the responsibility of marketing management to provide for adequate managerial training to make the transition effective. The Education and Training Department has dealt with this issue in its eight page report. For your free copy write or call NPTA's Education and Training Department.

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